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C O N F I D E N T I A L VIENNA 000617

SIPDIS

E.O. 12958: DECL: 05/28/2019

TAGS: [ENRG](#) [AU](#)

SUBJECT: AUSTRIA IN LATE-STAGE NEGOTIATIONS ON SOUTH STREAM
AGREEMENT

REF: A. A) 08 VIENNA 1263

[B](#). B) VIENNA 595 AND PREVIOUS

[C](#). C) MOSCOW 1283

Classified By: Economic/Political Counselor Dean Yap. Reasons: 1.5 b a
nd d.

[1](#). (C) Following Russian media reports on May 22, Austria's Minister for Economy (in charge of energy issues) Reinhold Mitterlehner has confirmed publicly that the GoA is in "ongoing negotiations" on a bilateral agreement with Russia to participate in the planned South Stream pipeline. Unlike his Slovenian counterpart Lahovnik, Mitterlehner declined to set a timeline for signature but an industry source says the GoA would like to reach a South Stream agreement soon. While Nabucco remains by far Austrians' top priority -- in no small part since oil/gas national OMV was Nabucco's initiator and remains its greatest champion -- the GoA also hopes that South Stream (if built) will terminate at OMV's gas distribution facility in Baumgarten.

[2](#). (C) An Embassy contact at OMV with deep ties to the Ministry of Economy, Astrid Dolak (PROTECT), opined the GOA was "eager" to close a deal on South Stream soon in order to bring as much gas as possible to (and through) Austria. Dolak speculated that the GoA felt "sidelined" at the May 15 Sochi conference on South Stream. Dolak expressed certainty that Nabucco remains the top gas pipeline project for the GoA (COMMENT: an opinion we share - END COMMENT). Dolak claimed that OMV sees no competition between Nabucco and South Stream -- as Europe will need all the gas it can get in the long run -- but derided the Sochi agreement to double South Stream's capacity from 31 to 63 bcm as "totally unrealistic."

COMMENT

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[3](#). (C): Since early 2008, the GoA has made no secret of its intention to work with Gazprom on South Stream, in the hope of strengthening OMV's Baumgarten distribution hub. In the immediate aftermath of the Georgia conflict (and in response to Post's urging), the GoA suspended working-level talks on an intergovernmental agreement with Russia -- but with no promise that Austria would back out of South Stream permanently (Ref A).

[4](#). (C) Russian gas has represented a central pillar of Austrian energy policy since 1968, when OMV was the first western European energy company to import Soviet gas. The Central European Gas Rub (CEGH) electronic exchange in Vienna, an OMV-Gazprom partnership, offers additional motivation (albeit not very significant at present) for Austrians to seek participation in South Stream. Even so, Nabucco remains the top priority for OMV and the Austrian government -- even at the expense of potentially irritating Russians. OMV's private skepticism that South Stream can reach 63 bcm/year may reflect Austrian concerns that the two

pipelines will in fact compete for limited supplies even if
demand resumes robust growth. END COMMENT.
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